

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. The City Should Prepare And Submit Timely Annual Financial Reports

The city's 1992 annual report was not prepared and submitted to the Office of State Auditor until September 1993, three months after the due date of May 30, 1993, as required by RCW 43.09.230.

When the city does not prepare and file financial reports as required by state law, users of the report are denied access to the city's financial information. Users and their concerns include:

- a. The Washington State Legislature, which receives a copy of the annual volume of comparative statistics for all municipalities published pursuant to RCW 43.09.230.
- b. The general public, which is interested in reports on the cost of public services.
- c. The State Auditor's staff, which finds that the absence of financial reports causes delays in audit work, and accordingly audit time and costs are significantly increased.
- d. City council members, whose use of the report as a management tool is diminished when the report is not issued timely.

The report was late due to problems in completing the Water Fund and Sewer Fund financial statements.

We again recommend that the city officials ensure the timely preparation and filing of the annual report.

2. Internal Controls Over Library Receipting And Receivables Need To Be Strengthened

As noted in our 1991 audit, reconciliation procedures over library receipts and receivables are inadequate to consistently account for moneys received and are also inadequate to ensure complete recording to patron and revenue accounts of receipts recorded.

Minor discrepancies in the reconciliation of cash collected to revenues reported are noted nearly every day. When discrepancies are noted, records are inadequate to determine the cause of the difference due to the lack of receipts or alternative computer input controls.

No reconciliation exists to ensure receipts are completely posted to the patron's account.

RCW 43.09.200 Division of municipal corporations- Uniform system of accounting states:

The state auditor, through such division, shall formulate, prescribe, and install a system of accounting and reporting, which shall be uniform for every public institution . . .

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all source of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

Failure to establish adequate controls over accounts receivables and cash receipts restricts the city's ability to detect errors and irregularities that may occur. Failure to maintain adequate documentation to research reconciliation discrepancies when noted, restricts the city's ability to take corrective action when necessary.

We again recommend that the library evaluate its receipting and receivable systems and implement improved controls to ensure accountability for cash receipts and completeness of revenue and patron records.

CITY OF BELLINGHAM
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January 1, 1992 Through December 31, 1992

Schedule Of Federal Findings

1. The City Should Improve Its Accounting For Fixed Assets

Our review of the city's fixed assets again revealed the following weaknesses:

- a. The city does not maintain a comprehensive fixed asset detail ledger for general fixed assets or water/sewer utility assets.
- b. With the exception of the internal service funds and the water/sewer utility, the city does not have a system in place to account for surplus or retired assets.
- c. The city does not take a comprehensive annual physical inventory of its fixed assets.
- d. Federal assets are not consistently identified by a serial number or tag number.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Subpart A, __.3, Equipment, (4)(d) states, in part:

(1) Property records must be maintained that include . . . a serial number or other identification number . . .

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property . . .

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states in Volume 1, Part 3, Chapter 7:

Accountability for fixed assets is required of all local governments, regardless of size. In addition, fixed asset accounting is required for cities and counties of over 8,000 population . . .

The BARS manual further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

Additionally, generally accepted accounting principles require accounting for fixed assets and related depreciation.

The inadequate fixed asset accounting is partially attributed to insufficient resources assigned to this area by city officials. As described in Note 6B, the city began recording fixed asset purchases in the general fixed asset group of accounts on December 1, 1984, and information has been collected which will be helpful in valuing assets purchased prior to that time. City officials indicate that they are planning to implement computer software in the near future to account for their general fixed assets.

Adequate safeguarding or reporting of city fixed assets cannot be assured when accounting procedures and controls are not established. We consider these deficiencies in the fixed asset system to be a material instance of noncompliance and a material weakness in internal controls.

We again recommend that the city:

- a. Establish and maintain a comprehensive detail ledger of general fixed assets and Water/Sewer Utility Fund assets.
- b. Ensure that surplus and retired assets are properly accounted for.
- c. Perform periodic physical inventories and reconcile to subsidiary ledgers.
- d. Provide a means to identify assets through a serial number or tag number.

2. The City Should Comply With Federal Requirements Over Subrecipients

During 1992, the city received \$130,500 for a U.S. Department of Justice Drug Control and System Improvement Grant. These funds were deposited into a City of Bellingham Police Department checking account. Of that amount, \$57,572 was disbursed directly to the Whatcom County Sheriff's Department and the Whatcom County Prosecutor's Office for expenses that they had incurred in accordance with an interlocal agreement. These funds were not handled through the normal receipting and disbursement systems established at the City of Bellingham. The remainder of the grant was disbursed from the checking account to the City of Bellingham Police Department and was receipted through the city's normal receipting system.

The \$57,572 disbursed to Whatcom County was not reported on the City of Bellingham's Schedule of Financial Assistance as a subgrant nor is this amount recorded within the city's accounting records.

Additionally, the \$57,572 was not reported on Whatcom County's Schedule of Financial Assistance for 1992.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Subpart C, __.26 Non-Federal Audit (b)(2) states:

Determine whether the subgrantee spent Federal assistance funds provided in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subgrantee made in accordance with the Act, Circular A-110, or through other means (e.g. program reviews) if the subgrantee has not had such an audit.

Subpart A, __.20, Standards for financial management systems, (b)(2) states:

Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property and must assure that it is used solely for authorized purposes.

The Washington State Constitution, Article XI, Section 15, Deposit of Public Funds states:

All moneys, assessments and taxes belonging to or collected for the use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depository to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

The funds disbursed to Whatcom County were not included on the grant schedule as a pass through grant because the city staff assigned to this grant were unaware of the requirement.

As a result of Whatcom County not including the grant on their Schedule of Financial Assistance, the City of Bellingham cannot ensure that the \$57,572 of Drug Control and System Improvement funds disbursed to Whatcom County have been subject to audit.

We recommend that the City of Bellingham include all federal grant receipts in their regular accounting records and on their Schedule of Financial Assistance. We further recommend that the city develop procedures to ensure that if the portion disbursed to another agency exceeds \$25,000, the agency receives a single audit.